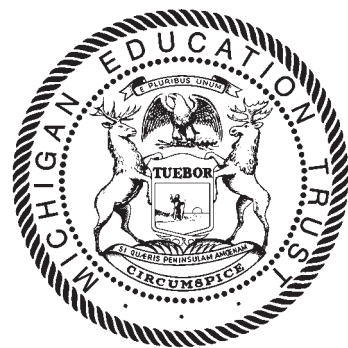


ANNUAL REPORT 2000–2001

Plans B & C



For additional copies, please
contact the MET office at:

1-800-MET-4-KID
(1-800-638-4543)

(517) 335-4767

www.michigan.gov/treasury



JOHN ENGLER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

DOUGLAS B. ROBERTS
STATE TREASURER

March 2002

Dear MET Participants:

We are pleased to present the fiscal year 2000-01 annual report for the Michigan Education Trust (MET). The actuarial report prepared by PricewaterhouseCoopers L.L.P. shows the MET fund for Plan B and Plan C contracts was actuarially sound and had a reserve of approximately \$99,112,458 as of September 30, 2001.

The Economic Growth and Tax Relief Reconciliation Act of 2001 was passed by the U.S. Congress effective January 1, 2002. This Act provides full tax exemption, therefore, MET will discontinue reporting taxable income to the Internal Revenue Service (IRS) on behalf of MET students or refund designees if benefits are used to pay for qualified higher education expenses. Other enhancements of the Act are outlined in the Annual Report.

If you have any questions or comments, please contact the MET office at (517) 335-4767 or (800) 638-4543 outside the greater Lansing area.

Sincerely,

A handwritten signature in black ink, appearing to be "DBR", written over a horizontal line.

Douglas B. Roberts
MET Chairman
State Treasurer

A handwritten signature in black ink, appearing to be "Robin R. Lott-McMillan", written in a cursive style.

Robin R. Lott-McMillan
Executive Director

MET BOARD AND LEADERSHIP

A nine-member Board of Directors administers the MET program. They are responsible for policy development, investment initiatives, program development and implementation. The Governor, on advice and consent of the Senate, appoints MET Board members, who represent expertise in business, academics or finance. By statute, the State Treasurer, Douglas B. Roberts, serves as Chairman. Robin Lott-McMillan, Executive Director, serves as liaison to the MET Board of Directors and administers MET operations.



Board members from left to right: Douglas B. Roberts, MET Chairman, *State Treasurer*; Michael Crandall, President, *Siegfried, Crandall, Vos & Lewis, P.C.*; Marilyn (Marsi) Liddell, President, *Glen Oaks Community College*; Thomas P. Sullivan, President, *Cleary College*; Mary E. Agar, School teacher, *Saint Monica School*; William A. Sederburg, President, *Ferris State University*; Dawn L. Phillips-Hertz, MET Vice President, *Attorney-at-Law, Butzel Long*; Richard M. Gabrys, MET President, *Managing Partner, Deloitte & Touche (Detroit Region)*; Taylor Segue, III, *Attorney-at-Law, Butzel Long*.

THE MET PROGRAM

Michigan Education Trust (MET) is Michigan's Section 529 prepaid tuition program established by Public Act 316 of 1986. MET is administratively located within the Department of Treasury, Bureau of Student Financial Assistance. A nine-member Board of Directors and a twelve-member staff administer the MET program.

MET allows parents, grandparents, business and others, to make contributions, at the current rate of tuition, for a child to attend any Michigan public college in the future. Michigan is the first state in the nation to enact legislation for a prepaid tuition program. Today, all 50 states have established similar prepaid or college savings programs.

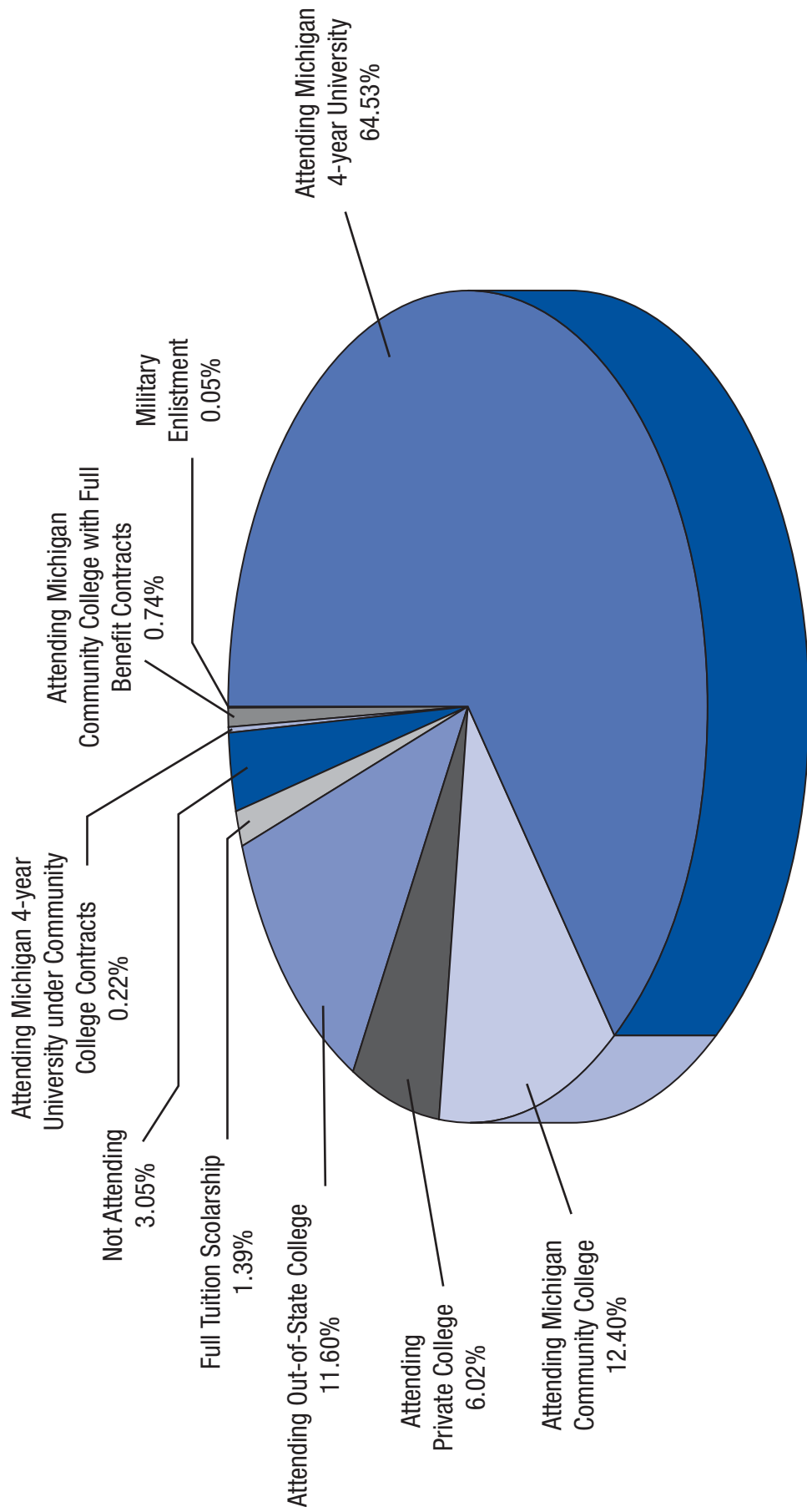
Since the program's inception, MET staff have provided quality public service to participants, by furnishing efficient and timely information on program development and changes.

NEW TAX ENHANCEMENTS

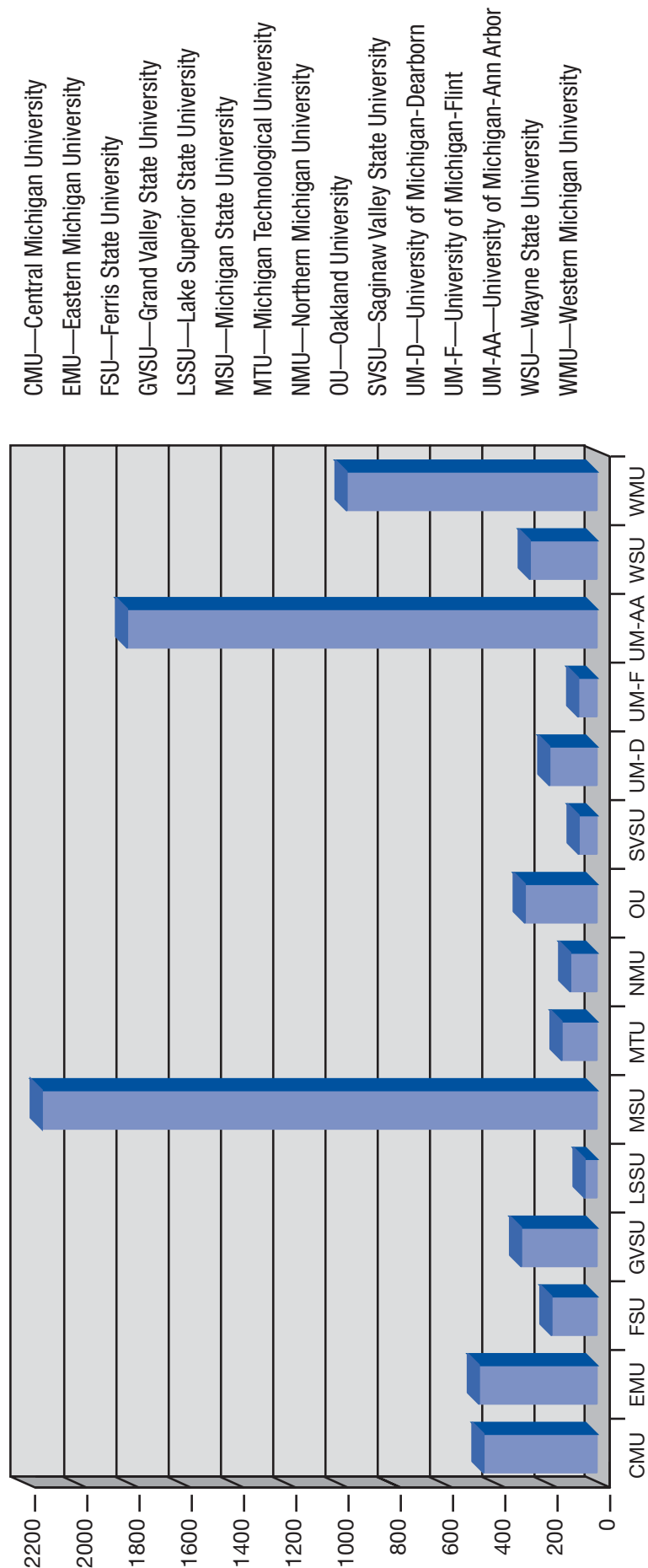
The Economic Growth and Tax Relief Reconciliation Act of 2001 allows tax-free qualified higher education distributions from Michigan Education Trust as of January 1, 2002. Education savings incentives included in the Act make Section 529 prepaid and savings plans an excellent way to save for college. New enhancements pertaining to MET include:

- ❖ Tax Free Withdrawals - Beginning January 1, 2002, earnings on any distributions used to pay for a beneficiary's qualified higher education expenses will be exempt from state and federal income tax.
- ❖ Coordination with Education IRAs - Starting January 1, 2002, contributions can be made to MET and an Education IRA in the same year without penalty. The maximum allowed for an Education IRA savings increased to \$2000 annually.
- ❖ Michigan Education Trust can accept rollovers from other Section 529 programs for the same beneficiary. This rollover option will allow more opportunity for MET participants.
- ❖ Penalty on Non-Qualified Withdrawals - Earnings on distributions not used to pay for a beneficiary's qualified higher education expenses will be subject to a 10% federal excise tax.
- ❖ Definition of "Immediate Family". The definition of "immediate family" will soon be amended to include cousins of the first degree of beneficiaries for MET contracts issued after the year 1996.
- ❖ Sunset Provision - These new federal enhancements are subject to sunset provisions, which will expire on December 31, 2010. Congress may or may not extend these new benefits beyond this date.

*Contracts in Payment Status Under Plans B & C
as of September 30, 2001*



*Students Attending 4-Year Public Universities Under Plans B & C
as of September 30, 2001*



December 20, 2001

PricewaterhouseCoopers LLP
Suite 200
40950 Woodward Ave.
Bloomfield Hills MI 48304-2260
Telephone (313) 394 3942
Direct fax (313) 394-3456

Dr. Douglas Roberts
Chairman of the Board of Directors of the
Michigan Education Trust
Department of Treasury
P. O. Box 30198
Lansing, Michigan 48909

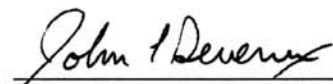
Dear Dr. Roberts:

We have performed an actuarial valuation of Plans B and C ("MET I") of the Michigan Education Trust ("MET I" or "the Trust"), at the request of the Trust as of September 30, 2001. The valuation is based on data furnished by MET regarding the contracts submitted during the 1988, 1989 and 1990 enrollment periods and payments made under those contracts; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1988, 1989 and 1990 enrollments.

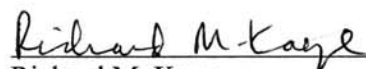
We have determined that as of September 30, 2001, based on the aforementioned data and assumptions, the market value of Plan B assets exceeded the actuarial present value of Plan B benefits by \$95,355,910, and the market value of Plan C assets exceeded the actuarial present value of Plan C benefits by \$3,756,548.

The valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the accompanying report have been appropriately determined according to the actuarial assumptions stated herein.

Respectfully submitted,



John T. Devereux, FCAS, MAAA
Principal Consultant, PricewaterhouseCoopers LLP



Richard M. Kaye
Fellow of the Society of Actuaries, CPA
Richard M. Kaye & Associates
Consultant to PricewaterhouseCoopers LLP



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

Dr. Douglas B. Roberts, Chairman
Michigan Education Trust Board of Directors

Mr. Thomas H. McTavish, CPA
Office of the Auditor General

We have audited the accompanying statements of net assets of the Michigan Education Trust (MET) Plans B and C, Department of Treasury, as of September 30, 2001 and 2000, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Michigan Education Trust and the management of the Department of Treasury. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, MET adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as of October 1, 1999.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plans B and C, as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2001 on our consideration of the Michigan Education Trust’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management’s Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
December 20, 2001

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • ph 517.487.5000 fx 517.487.9535 • www.ahpplc.com

Management's Discussion and Analysis
Michigan Education Trust
Plans B and C

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET), Plans B and C, for the year ended September 30, 2001. MET is an Internal Revenue Code (IRC) Section 529 prepaid tuition program and is a component unit of the State of Michigan, administratively located within the Michigan Department of Treasury. Management is responsible for the financial statements, footnotes and this discussion.

Using the Financial Report

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

- The new reporting standards require a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows.
- The financial statements differ in form compared to prior years' financial statements.

This financial report includes the report of independent auditors, the management's discussion and analysis, the basic financial statements in the new format, and notes to financial statements.

The financial statements are interrelated and represent the financial status of MET. The Balance Sheet is now referred to as the Statement of Net Assets which includes the assets, liabilities and net assets.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating and investing activities.

Analysis of Financial Activities

The MET Board of Directors approves an annual budget and the investment portfolio allocation. The Department of Treasury Investments Bureau is responsible for short and long-term investment of MET funds. The MET portfolio for Plans B and C is invested 100% in fixed income investments. The actuary assumes one percent of the MET assets will go toward administrative expenses.

MET funds are invested to coincide with the students expected years of high school graduation. Once students activate their contracts, colleges and universities submit invoices to MET every semester for tuition and mandatory fees. Students have nine years from the expected year of high school graduation to completely use MET contract benefits.

Annually, the actuary determines the actuarial soundness of each MET plan. Key factors used in the soundness analysis are: tuition increases (short and long-term), investment performance, and college selection against the Trust by students, and purchasers.

Comparison of Current Year Results and Prior Year

Condensed Statements of Net Assets as of September 30, (in thousands)

	2001	2000
Current assets	\$ 124,107	\$ 48,940
Noncurrent assets	610,664	662,295
Total assets	<u>\$ 734,771</u>	<u>\$ 711,235</u>
Current liabilities	\$ 59,008	\$ 49,008
Long-term liabilities	576,651	503,383
Total liabilities	<u>635,659</u>	<u>552,391</u>
Net assets-restricted	99,112	158,844
Total liabilities and net assets	<u>\$ 734,771</u>	<u>\$ 711,235</u>

Overall the net assets decreased by approximately \$59.7 million.

Cash and cash equivalents include short term investments. This line item increased as of September 30, 2001, because some investments matured and the proceeds were not immediately reinvested in the long-term portfolio due to market volatility.

Overall the total current assets increased primarily due to the increase in cash and cash equivalents.

Noncurrent assets decreased due to proceeds from investment maturities reflected in cash and cash equivalents at September 30, 2001.

The tuition benefits payable increase reflects the changes in the actuarial present value of the future tuition obligation. Changes in the present value of the future tuition benefit obligation include the changes in the present value discount due to the passage of time, differences between actual experience and the actuarial assumptions utilized, and any changes in actuarial assumptions. The increases to the current and long-term liabilities are due to the tuition benefits payable increasing.

Condensed Statements of Revenues, Expenses and Changes in Net Assets for Fiscal Year Ended September 30, (in thousands)

	2001	2000
Operating Revenues		
Interest and dividends	\$ 42,633	\$ 45,671
Net realized and unrealized appreciation (depreciation) in the fair value of investments	34,244	(10,390)
Other	16	52
Total operating revenue	<u>76,893</u>	<u>35,333</u>
Operating Expenses		
Salaries and other administrative expenses	1,424	1,451
Tuition benefit expense (credit)	135,201	(25,775)
Total operating expenses (credit)	<u>136,625</u>	<u>(24,324)</u>
Operating income (loss)	<u>\$ (59,732)</u>	<u>\$ 59,657</u>
Increase (decrease) in net assets	\$ (59,732)	\$ 59,657
Net assets – beginning of fiscal year	158,844	99,187
Net assets – end of fiscal year	<u>\$ 99,112</u>	<u>\$ 158,844</u>

Interest and dividend income decreased slightly due to lower average yields in fiscal year 2001 as compared to fiscal year 2000.

Net realized and unrealized appreciation (depreciation) in the fair value of investments increased as a result of increases in investment market values in fiscal year 2001.

Total operating expenses increased by approximately \$161 million due to the change in the present value of the future tuition benefit obligation.

Salaries and other administrative expenses decreased slightly. The actual number of staff positions filled in fiscal year 2001 was lower than fiscal year 2000 due to one retirement.

Condensed Statements of Cash Flows for Fiscal Year Ending September 30, (in thousands)

	2001	2000
Cash provided (used) by:		
Operating activities	\$ (10,169)	\$ (3,538)
Investing activities	85,875	27,003
Net increase (decrease) in cash	75,706	23,465
Cash – beginning of the year	35,665	12,200
Cash - end of the year	<u>\$ 111,371</u>	<u>\$ 35,665</u>

The net cash provided by operating activities decreased primarily due to the increase in tuition contract payments.

Overall the cash and cash equivalents at the end of the year increased.

The overall financial position of MET, Plans B and C for the year ending September 30, 2001 is positive and shows net assets of approximately \$99 million. The net assets decreased from September 30, 2000 primarily due to:

1. Higher than expected tuition increases during the last year.
2. Lower than expected asset performance during the last year.
3. A loading added to liabilities of 2.0% to reflect actuarial analysis of the experience under the plan.

Factors Impacting Future Periods

It is expected that Michigan public universities will adopt higher tuition increases next year if state appropriated funds decrease. Otherwise there are no other known facts, decisions or conditions that are expected to have a significant effect on the financial position or results of operations.

Based on current experience of students using MET benefits to attend Michigan public colleges and universities, it is expected that MET Plans B and C will reach its peak matriculation period from 2002 through 2006. During this time, approximately 20,000 students will be eligible to begin using MET contracts to attend college along with approximately 10,000 students already using MET contracts. After 2006, the number of students expected to matriculate will dramatically decrease because new contracts have not been offered under MET Plans B and C since 1990.

MICHIGAN EDUCATION TRUST PLANS B AND C
Department of Treasury
Statements of Net Assets
As of September 30

ASSETS	<u>2001</u>	<u>2000</u>
Current Assets:		
Cash and cash equivalents	\$ 111,370,628	\$ 35,664,476
Tuition contracts receivable	-	134,137
Amounts due from MET Program (Plan D)	741,551	378,902
Amounts due from Primary Government	905,641	540,282
Amounts due from others	42,543	66,330
Interest and dividends receivable	<u>11,046,683</u>	<u>12,156,175</u>
Total Current Assets	124,107,046	48,940,302
Noncurrent Assets:		
Investments	<u>610,664,184</u>	<u>662,295,033</u>
Total Assets	<u>\$ 734,771,230</u>	<u>\$ 711,235,335</u>
LIABILITIES		
Current Liabilities:		
Tuition benefits payable	\$ 59,000,000	\$ 49,000,000
Undistributed charitable tuition	4,784	4,784
Compensated absences	<u>3,202</u>	<u>3,202</u>
Total Current Liabilities	59,007,986	49,007,986
Long-Term Liabilities:		
Tuition benefits payable	576,608,503	503,332,910
Compensated absences	<u>42,281</u>	<u>49,731</u>
Total Liabilities	635,658,770	552,390,627
NET ASSETS		
Net Assets-restricted	<u>99,112,460</u>	<u>158,844,708</u>
Total Liabilities and Net Assets	<u>\$ 734,771,230</u>	<u>\$ 711,235,335</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST PLANS B AND C
Department of Treasury
Statements of Revenues, Expenses and Changes in Net Assets
Fiscal Year Ended September 30

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES		
Interest and dividend income	\$ 42,632,790	\$ 45,671,481
Net realized and unrealized appreciation (depreciation) in the fair value of investments	34,244,018	(10,390,296)
Other miscellaneous income	<u>16,340</u>	<u>52,022</u>
Total Operating Revenues	76,893,148	35,333,207
OPERATING EXPENSES		
Salaries and other administrative expenses	1,424,338	1,451,137
Tuition benefit expenses (credit)	<u>135,201,058</u>	<u>(25,775,113)</u>
Total Operating Expenses (Credit)	<u>136,625,396</u>	<u>(24,323,976)</u>
Operating Income (Loss)	<u>(59,732,248)</u>	<u>59,657,183</u>
Increase (Decrease) in Net Assets	(59,732,248)	59,657,183
Net Assets - Beginning of Fiscal Year	<u>158,844,708</u>	<u>99,187,525</u>
Net Assets - End of Fiscal Year	<u><u>\$ 99,112,460</u></u>	<u><u>\$ 158,844,708</u></u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST - PLANS B AND C

Department of Treasury Statements of Cash Flows Fiscal Year Ended September 30

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2001</u>	<u>2000</u>
Contract receipts	\$ 134,137	\$ 399,726
Interest and dividends received	43,742,282	45,780,773
Contract payments	(51,925,465)	(48,355,918)
Administrative and other expenses paid	(2,159,796)	(1,349,490)
Application and other fees collected	40,127	(12,848)
Net Cash used by Operating Activities	<u>(10,168,715)</u>	<u>(3,537,757)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(268,027,862)	(101,367,604)
Proceeds from sale and maturities of investment securities	<u>353,902,729</u>	<u>128,370,261</u>
 Net Cash Provided from Investing Activities	<u>85,874,867</u>	<u>27,002,657</u>
 Net Cash Provided - All Activities	75,706,152	23,464,900
Cash and Cash Equivalents at Beginning of Year	<u>35,664,476</u>	<u>12,199,576</u>
 Cash and Cash Equivalents at End of Year	<u><u>\$ 111,370,628</u></u>	<u><u>\$ 35,664,476</u></u>
 Reconciliation of Operating Income (loss) to net cash used by operating activities		
Operating income (loss)	\$ (59,732,248)	\$ 59,657,183
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Unrealized and realized (gains) losses	(34,244,018)	10,390,296
Changes in assets and liabilities:		
Tuition contracts receivable	134,137	399,726
Amounts due from Primary Government	(365,359)	219,462
Interest and dividends receivable	1,109,492	109,292
Other assets	(338,862)	(177,865)
Accounts payable and other liabilities	(7,450)	(4,820)
Tuition benefit payable	83,275,593	(74,131,031)
	<u><u>\$ (10,168,715)</u></u>	<u><u>\$ (3,537,757)</u></u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST (Plans B and C)
DEPARTMENT OF TREASURY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

NOTE 1 – BASIS OF PRESENTATION AND REPORTING ENTITY

A. Basis of Presentation

The financial statements of the Michigan Education Trust (MET) have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement is effective for MET's year ended September 30, 2001 since MET, as a component unit of the State of Michigan, is required to adopt the Statement in the year the State of Michigan is adopting it. MET will follow the "business-type" activities requirements of GASB Statement No. 34. rather than issuing fund-type financial statements and will have the following components of the financial statements:

- Management's discussion and analysis
- Basic financial statements including a statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows for MET (Plans B and C) as a whole
- Notes to the financial statements

The 2000 statement of cash flows has been restated using the direct method required by GASB Statement No. 34.

B. Reporting Entity

MET was created under Act 316 (the "Act") of the Michigan Public Acts of 1986 (Sections 390.1421-390.1444 of the Michigan Compiled Laws) to operate a prepaid college tuition program. MET is governed by a Board of Directors consisting of nine members including eight public members, appointed by the Governor with the advice and consent of the Senate, and one ex-officio member (the State Treasurer as chairperson). MET is administratively located within the Michigan Department of Treasury. The State Treasurer, as agent for MET, may not commingle funds and must maintain a separate bank account for MET. MET is a proprietary component unit of the State of Michigan (the "State") and is reported as such in the State of Michigan Comprehensive Annual Financial Report.

The Act empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser which provides that, in return for a specified actuarial determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The purchase amount is based on several factors, including tuition costs, anticipated investment earnings, anticipated tuition rate increases, and the type of contract purchased. MET offers a full benefits and limited benefits and a community college contract. MET's property, income and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The Act and the contracts specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

As of September 30, 2001, there have been eight enrollment periods for MET. The 1988, 1989 and 1990 enrollments are known as Plans B and C. The 1995, 1997, 1998, 1999 and 2000 enrollments are known as Plan D. The Plan D enrollments are accounted for and reported separately from the Plans B and C enrollments. This report covers Plans B and C enrollments. A separate financial report and actuarial valuation of the Plan D enrollments are available from the MET office at P.O. Box 30198, Lansing, Michigan 48909.

MICHIGAN EDUCATION TRUST (Plans B and C)
DEPARTMENT OF TREASURY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus and Basis of Accounting

The financial statements of MET are prepared using the economic resources measurement focus and are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the materials, services, or benefits are received. Service fees and other fees and charges are recorded as income when earned, and the associated administrative expenses are recorded as incurred. Tuition benefit expense represents accretion of the tuition benefits obligation (see note 5).

As allowed by GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and other Government Entities that Use Proprietary Fund Accounting*, MET follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

B. Assets, Liabilities, and Net Assets

Cash and Cash Equivalents: Cash reported on the balance sheet includes deposits with financial institutions, and cash equivalents such as short-term investments with original maturities of less than three months used for cash management rather than investing activities.

Cash and Investments: MET's deposits and investments are held in a fiduciary capacity by the State Treasurer. The Act authorizes MET's Board of Directors to invest MET's assets in any instrument, obligation, security, or property that it considers to be appropriate. The Act also authorizes the pooling of MET's assets with assets of the State, such as the pension funds, for investment purposes.

Investments are carried at market value (see note 3).

The Act requires all deposits of MET to be secured by obligations of the United States or of the State. The market value of these obligations must at all times be equal to or greater than the amount of the deposits of MET, and all banks and trust companies are authorized to give such security for such deposits.

Tuition Contracts Receivable: The present value of the future installment contract payments receivable is recorded as a current asset of MET. The discount rate applied to expected future cash flows to determine present value is 6.20%.

Liabilities: The actuarial present value (APV) of the future tuition obligation is recorded as a current and long-term liability of MET (see note 5). MET also recorded a liability for compensated absences.

Net Assets: MET's net assets represents the investment appreciation and the investment revenue in excess of the APV of the future tuition obligation and expenses (see note 5). Net assets are restricted due to the contractual obligations MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. The enabling legislation for MET is P.A. 316 of 1986. Section 17 of the act indicates that "the assets of the trust shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in the act and shall not be loaned or otherwise transferred or used by the State for any purpose other than the purposes of this act."

MICHIGAN EDUCATION TRUST (Plans B and C)
DEPARTMENT OF TREASURY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

NOTE 3 - DEPOSITS AND INVESTMENTS

A. General Information:

The Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires certain disclosures regarding policies and practices with respect to deposits and investments and the credit risk associated with them.

Deposits: In accordance with GASB Statement No. 3, deposits are classified into three categories of credit risk, as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3: Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

Investments: In accordance with GASB Statement No. 3, investments are also classified into three categories of credit risk, as follows:

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities).

B. Deposits: At year end, the carrying amount of MET's deposits for Plans B and C was \$5,202,281. The deposits were reflected in the accounts of the banks at \$5,202,281. The September 30, 2001 balances were covered by Federal depository insurance or collateral held with MET's agent in MET's name and accordingly classified in GASB credit risk category 1.

C. Investments: The following table shows the carrying amounts and market values of investments for Plans B and C, by investment type and in total (in millions) at September 30, 2001:

<u>Investments</u>	<u>GASB Category</u>			<u>Not Categorized</u>	<u>Total Carrying Value</u>	<u>Market Value</u>
	<u>#1</u>	<u>#2</u>	<u>#3</u>			
Commercial Paper	\$ 106.2				\$ 106.2	\$ 106.2
Government Securities	343.9				343.9	343.9
Corporate Bonds & Notes	266.8				266.8	266.8
Total Investments	<u>\$ 716.9</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$ 0.0</u>	<u>716.9</u>	<u>\$ 716.9</u>

Less Investments Reported as Cash and Cash Equivalents
on Statement of Net Assets

106.2

Total Investments Per Statement of Net Assets

\$610.7

As Reported on the Statement of Net Assets

Cash and cash equivalents

\$106.2

Noncurrent investments

610.7

Total Investments

\$716.9

MICHIGAN EDUCATION TRUST (Plans B and C)
DEPARTMENT OF TREASURY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

NOTE 4 – TUITION CONTRACTS RECEIVABLE

The following summarizes tuition contracts receivable as of September 30, 2000 (none as of September 30, 2001):

Tuition Contracts Receivable	\$ 138,234
Present Value Discount	4,097
Net Tuition Contracts Receivable	<u>\$ 134,137</u>

NOTE 5 - TUITION BENEFITS PAYABLE

Presented below is the total tuition benefits obligation of MET. The standardized measurement is the APV of the future tuition obligation. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and termination of MET contracts. This valuation method resulted in the recognition of a tuition benefit expense in the fiscal year ending September 30, 2001 and a tuition benefit credit for the fiscal year ending September 30, 2000.

	<u>September 30, 2001</u>	<u>September 30, 2000</u>
Market Value of Net Assets excluding		
Tuition Benefits Obligation	\$734,720,963	\$711,177,618
Present value of future benefits payable and		
expenses, assuming the fund earns 6.20%	635,608,503	552,332,910
Net Assets in excess of Tuition Benefits Obligation	99,112,460	158,844,708
Net Assets as a Percentage of Tuition Benefits		
Obligation	116%	129%

The most important assumptions used in the actuarial valuations include the following:

The discount rate applied to expected future cash flows to determine present value is 6.20%. This discount rate approximates the expected investment yield over the lifetime of the present tuition benefit contracts.

Projected Tuition Increase is 5.71% compounded annually for the next five years and 7.30% for the balance of the period. The Board continued with a two-tier formula for adjusting the tuition increase assumption. The short term increase assumption of 5.71% (5 years through 2007) was based on an extrapolation of recent experience. The Board also considered the relationship of tuition increases to the consumer price index in determining the long term tuition increase assumption of 7.30%.

Federal Income Tax - No tax effect.

Selection Against Trust (Bias) - MET will pay 110% of the MET weighted average tuition in benefits and refunds.

Presented below are the key assumptions used in the actuarial valuations for Plans B and C:

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Tuition Increase	5.71%	5.81%	6.30%	6.86%	7.45%
Tuition Increase Long Term	7.30%	7.30%	7.30%	7.30%	7.30%
Present Value Discount Rate	6.20%	6.20%	6.20%	7.60%	8.05%

MICHIGAN EDUCATION TRUST (Plans B and C)
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

NOTE 6 – LONG-TERM LIABILITIES

The following summarizes the long-term liabilities as of and for the years ended September 30, 2001 and 2000:

	<u>Tuition Benefit Payable</u>	<u>Compensated Absences</u>
<u>2001</u>		
Beginning balances	\$ 552,332,910	\$ 52,933
Expense provision	135,201,058	-
Payments	51,925,465	7,450
Ending balances	<u>\$ 635,608,503</u>	<u>\$ 45,483</u>
Amounts due within one year	<u>\$ 59,000,000</u>	<u>\$ 3,202</u>
	<u>Tuition Benefit Payable</u>	<u>Compensated Absences</u>
<u>2000</u>		
Beginning balances	\$ 626,463,941	\$ 45,697
Expense provision (credit)	(25,775,113)	7,236
Payments	48,355,918	-
Ending balances	<u>\$ 552,332,910</u>	<u>\$ 52,933</u>
Amounts due within one year	<u>\$ 49,000,000</u>	<u>\$ 3,202</u>

Actuarial assumptions described in Note 5 have a significant impact on the tuition benefit liability. Actual results may differ from the assumptions utilized.

NOTE 7 - TAX STATUS

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan, and thus, the investment income realized by MET is not currently subject to federal income tax.

Distributions made in excess of contributions (whether to the refund designee or beneficiary or to a college on behalf of the beneficiary) are taxable income to the refund designee or the beneficiary. After January 1, 2002, these excess distributions will no longer be subject to federal income tax, if used for qualified higher education expenses.

On August 20, 1996, the Small Business Job Protection Act of 1996 (the "1996 Tax Act") was signed into law which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified state tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income.

In May 1997 MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET meets the requirements for exemption from federal income tax as a qualified state tuition program described in section 529 of the Code.

MICHIGAN EDUCATION TRUST (Plans B and C)
DEPARTMENT OF TREASURY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2001

NOTE 8 – RISK MANAGEMENT

MET participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and bonding programs, automobile liability, workers' compensation and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (Internal Service Funds) have been established by the State to account for these self-insured risk management programs. As a participant, MET recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Management and Budget.

MET QUOTES

"Love MET. Best thing next to having her children"

Mrs. Pamala L H Ross
Sterling Heights, MI

"MET staff most non-solicited 'happy people'"

Ms. Dale Phillips

"Most personable State office I interact with – efficient and courteous".

Mr. Angus Miller
Brighton, MI

"Forward approach for saving for college"

Dave Dillon
Oxford, MI

"Loves MET"

Leslie A. Patrick
Ashley, MI

"Great Program"

Lisa Johnson
Saginaw, MI

"MET office is the most helpful of all government offices ever!" "Loves MET"

Dean Lacy
Commerce, MI

**"What an easy way to invest in the future"
"Never had a problem with tuition payments"
"Recommend to grandparents who want to leave something of value to grandchildren"**

Thomas A. Barszczowski

"Thank you for the timely and complete response. It's a rare pleasure to get such prompt attention."

Rod Farver
Brookfield, WI

"MET is Best"

Don Greka
Rockford, MI

"We appreciate having had the opportunity to participate in the MET program."

Thomas P. Beresford
Aurora, CO

"A no brainer - It is the best buy!"

Chuck Crowley
Jenison, MI

"Thank you so much for your time and patience in answering all my questions."

Linda R. Herwick
Milford, MI

"Questions were answered very professionally and gave us good advice."

Patricia H. Caswell
Houghton Lake, MI

"Your time and special attention was greatly appreciated." "MET office has been a joy to work with throughout the time our daughter attended college. Each time I talked with MET staff, I have been treated most professionally, and answers were provided quickly and with clarity." "It is refreshing to deal with such a competent, pleasant and service oriented group. Thanks for the insight and personal support. ...a valuable resource to residents of the State of Michigan."

Brian LaBarre
Ann Arbor, MI

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REMINDER

It is important that we have correct addresses and phone numbers. Please notify us when a **permanent address** change is made. This will enable us to mail the appropriate individual important program information such as tax information used for income tax purposes. The MET contract is a legal document, therefore, any changes to the contract must be made in writing to the MET office and mailed to the address listed below.

Michigan Department of Treasury, MET
2775 (4-00), Formerly T-2022

CHANGE OF ADDRESS

Contract Number*	
Name	
E-mail Address	
New Address	
City and State	ZIP Code
Daytime Phone Number ()	

THIS ADDRESS CHANGE IS APPLICABLE TO:

_____ **Purchaser** _____ **Beneficiary (student)** _____ **Appointee**

(Check all that apply)

Signature

Date

Mail to:

**Michigan Education Trust
P.O. Box 30198
Lansing, Michigan 48909**

*** If change of address applies to more than one beneficiary (student), please copy this form and submit a separate form for each beneficiary (student).**

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MET STAFF

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Executive Director

Joseph Asghodom
Finance Manager

Dalynne M. Preston
Financial Analyst

Linda Sanchez
Policy Analyst

Sharon Gleason
Processing Specialist

Jchon Patton
Accounting Assistant

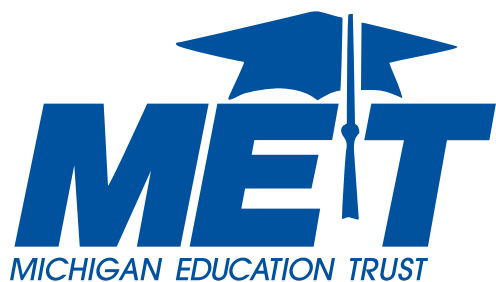
Linda Giles-Gordon
Executive Secretary

Denise VanVleet
Secretary

Sheila Cornfield
Communication Assistant

Josephine Moore
Communication Assistant

Deborah Sumner
Communication Assistant



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